EXPLANATORY MEMORANDUM TO

Valuation for Rating (Decapitalisation Rate) Regulations (Northern Ireland) 2015

S.R. 2015 No. 32

1. Introduction

1.1. This Explanatory Memorandum has been prepared by the Department of Finance and Personnel to accompany the Statutory Rule (details above) which is laid before the Northern Ireland Assembly.

1.2. The Statutory Rule is made under paragraphs 5 and 6 of Part 1 of Schedule 12 to, the Rates (Northern Ireland) Order 1977 (S.I. 1977/2157 (N.I. 28)) and is subject to the negative resolution procedure.

2. Purpose

2.1. These Regulations prescribe a new decapitalisation rate ("decap rate") for non-domestic hereditaments as part of the 2015 rating revaluation.

2.2. Regulation 1 contains the citation and commencement provisions

2.3. Regulation 2 defines certain expressions which are used in the Regulations.

2.4. Regulation 3 provides for the Regulations to apply for the purposes of any NAV list coming into force on or after 1st April 2015.

2.5. Regulation 4 prescribes the two decap rates and specifies the classes of hereditament in respect of which these rates are to be used for valuation purposes. The lower rate of 2.67% applies to church, educational and healthcare hereditaments and the higher rate of 4% applies to any other case where the contractor's principle is used.

2.6. Regulation 5 revokes the Valuation for Rating (Decapitalisation Rate) Regulations (Northern Ireland) 2009 ("the 2009 Regulations") which were intended to give effect to decap rates for the purposes of the cancelled 2010 rating revaluation. The 2009 Regulations revoked the Valuation for Rating (Decapitalisation Rate) Regulations (Northern Ireland) 2003 ("the 2003 Regulations") with a saving that the 2003 Regulations should continue to apply for the purposes of the valuation list which came into force on 1st April 2003. Regulation 5(2) of the present Regulations preserves that saving.

3. Background

3.1. All non domestic properties are valued for rates by reference to an estimate of rental value but as some of these properties are rarely rented it is necessary to value them with reference to construction costs. The decap rate is the conversion factor needed to derive an annual equivalent or rental value from the depreciated construction cost estimate.

3.2. The current decap rates were set for the 2003 rating revaluation. There are two rates; a standard decap rate for most specialised properties and a lower

decap rate for education, healthcare, church and Ministry of Defence property. These rates are currently set at 5.5% and 3.67%.

3.3. GB was subject to a non-domestic revaluation in 2005 which set lower rates of 5% and 3.3%. These rates apply to England and Scotland. Lower rates of 4.5% and 2.97% were set for the purposes of the 2010 revaluation in Wales. At the time of the planned 2010 non-domestic revaluation the Northern Ireland Executive consulted on the proposal to harmonise with the decap rates in England and Scotland. The proposal met with support but the revlaluation was subsequently cancelled and decap rates have remained at 5.5% and 3.67%.

4. Consultation

4.1. The Department issued a consultation paper in October 2013 in respect of the decap rate to be applied to the non domestic revaluation exercise which will come into operation on April 2015. to a focused group who were directly or indirectly affected by the decap rate. The Department, having considered the responses alongside emerging findings from the revaluation exercise has decided to set lower rates of 4% and 2.67%, taking into account wider economic changes.

4.2. The Department also decided to proceed with the consultation proposal that Ministry of Defence properties be moved from the lower decap rate to the higher rate.

5. Equality Impact

5.1. There are no equality impact implications as this rule is technical.

6. Regulatory Impact

6.1. A Regulatory Impact Assessment was not carried out as this is a technical market device linked to rating valuation assessment and will not significantly impact on the businesses concerned. Most of those affected are the in the public sector in NI.

7. Financial Implications

7.1. The decap rate is one element in a highly complex rating valuation. While the new rates are lower than those deployed at the 2003 revaluation the overall financial impact is likely to be offset by increases in other elements within the valuation such as construction costs and land values

8. Section 24 of the Northern Ireland Act 1998

8.1. As the Regulations are technical and unrelated to Community law, there are no section 24 implications.

9. EU Implications

9.1. There are no relevant European Regulations or Directives.

10. Parity or Replicatory Measure

10.1. These Regulations are required as part of the Northern Ireland non-domestic revaluation exercise in 2015. The rest of the UK has postponed revaluation until 2017 at which time their decap rates will be considered.

Current decap rates for England, Scotland and Wales are set out in the following Regulations –

The Valuation for Rating (Decapitalisation Rate) (Scotland) Regulations 2005 (S.S.I. 2005/41).

The Non-Domestic Rating (Miscellaneous Provisions) (Amendment) (England) Regulations 2004 (S.I. 2004/1494).

The Non-Domestic Rating (Miscellaneous Provisions) (Amendment) (Wales) Regulations 2008 (S.I. 2008/2997 (W.262)).

11. Additional Information

11.1. Not applicable.